NEWS RELEASE

United States Senate
Committee on Small Business
Olympia J. Snowe, Chair

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SMALL BUSINESS CHAIRS SNOWE, MANZULLO INTRODUCE BILL TO FIGHT CURRENCY MANIPULATION BY CHINA, OTHERS

Unfair Practice Widens Trade Deficit, Hurts U.S. Manufacturers

(Washington, D.C.) - Today, U.S. Senator Olympia J. Snowe (R-ME) and U.S. Representative Don Manzullo (R-IL), Chairs of the Senate and House Small Business Committees, introduced legislation in the Senate and House that combats ongoing foreign currency manipulation, an unfair trade practice that puts American businesses, particularly manufacturers, at a competitive disadvantage with China and other nations.

The Fair Currency Practices Act of 2005 (S. 984 and H.R. 2208) would strengthen the tools the U.S. Treasury Department uses to a) formally designate offending countries as currency manipulators; and b) enter into negotiations to force offending nations to live up to their international obligations and stop undervaluing their currencies.

"As a Senator from a state with a rich manufacturing tradition that has experienced numerous job losses in recent years, I am keenly aware of the impact that the unscrupulous trade practices of China and other nations have had on our manufacturing sector," said Snowe. "Countries that manipulate their currencies pose a substantial threat to our nation's manufacturing base, and clearly it's time that we force them to play by the rules. American manufacturers - who are integral to our economic security and national defense - needlessly struggle to compete with countries that disregard their international obligations. Our legislation is one important step on the path of corrective action."

"All nations, most particularly China, must let the free markets determine the value of their currency, not use government resources to artificially depress the value of their currency to boost their economic growth. This scheme costs U.S. manufacturers billions of dollars in lost exports and decreased market share in the U.S. each year while putting American workers on the unemployment lines," Manzullo said. "Americans stand ready to compete with anyone in the world. But the competition must be fair. The legislation Senator Snowe and I introduced today will give our government the tools necessary to hold all nations of the world accountable for currency manipulation, including China, and level the playing field for our workers."

The Fair Currency Practices Act has three key provisions. The first would alter the criteria by which the Treasury Department is required to enter into negotiations with foreign countries that it labels as currency manipulators. The second would further clarify the working definition of manipulation under the Exchange Rates and International Economic Policy Coordination Act of 1998. Finally, the Fair Currency Practices Act would instruct Treasury to undertake an extensive examination of China's trade surplus, with particular attention paid to China's suspect trade data, and report on its findings.

Through the practice of pegging its currency to the dollar, China artificially maintains the yuan at 8.28 per dollar. While economists differ over the extent that China's currency is undervalued, it is often estimated to be undervalued by as much as 15 to 40 percent, rendering Chinese manufactured goods cheaper in the U.S. - and U.S. manufactured goods more expensive in China. Furthermore, China's deliberate currency manipulation practices have contributed to our nation's trade deficit with China, reaching a record $162 billion last year. The yuan's undervaluation has had a profound impact on our nation's manufacturing sector - particularly on U.S. manufacturing employment.

Today, the U.S.-China Economic and Security Review Commission issued a report on China's currency practices, which notes that foreign exchange markets are sending clear signals that China should revalue its yuan, and that in recent years all major currencies have adjusted upward with the exception of China's.

The report also suggests that legislation be enacted to improve the process by which the Treasury Department assesses and reports upon the issue of currency manipulation. The Fair Currency Practices Act, addresses this issue. Specifically, the Act amends the 1988 Omnibus Trade Act to clarify that a country, like China, that is engaged in "protracted large-scale intervention in one direction in the exchange market," is a currency manipulator.

The Fair Currency Practices Act of 2005 also amends the 1988 Omnibus Trade Act to eliminate the necessity that a country have *both* a significant bilateral trade surplus with the United States *and* a material global current account surplus, before the Secretary of the Treasury is required to enter into negotiations with the offending country to end its unfair practices. The change requires such negotiations if there is *either* a significant bilateral trade surplus with the United States *or* a material global current account surplus.

Currently, the Treasury Department, the International Monetary Fund, and others rely largely upon suspect Chinese data in determining China's trade balance with other countries. A provision in the Fair Currency Practices Act instructs the Treasury Department to undertake an exercise examining China's trade surplus. The investigation would include an analysis of why China's reported trade surplus with the U.S. and other countries differs from that reported by China's trading partners. The legislation requires that the Treasury Department submit a report of its investigation to Congress.